



PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO  
607 North 8th Street  
BOISE, IDAHO 83702

MINUTES  
OF  
MEETING OF RETIREMENT BOARD

The Board of the Public Employee Retirement System of Idaho met at the PERSI Administration Building, 607 North Eighth Street in Boise, Idaho at 8:35 a.m. April 21, 2005. The following members were present:

Jody B. Olson

Clifford T. Hayes

Trustee Johnson joined the meeting at 9 a.m. Trustees J. Kirk Sullivan and Pamela I Ahrens were absent and excused. Executive Director Alan H. Winkle, Deputy Attorney General Brad Goodsell, Investment Officer Richelle Sugiyama, Financial Officer James Monroe and Management Assistant Joanne C. Ax were also in attendance. The electronic projection of materials and documents discussed in the meeting was handled by Betsy Griffith. Other persons attending portions of the meeting were:

Rod MacKinnon  
Bruce Reed  
Parke Blundon  
Brian McGrath  
Cody Barney  
Drew Black  
Jim Shakelford  
Brent Nye  
Dona VanTrease  
Michael Barcelo  
Renee Sessler  
Vikki Reynolds  
Doug Bates  
Brian Hill

Mountain Pacific Investment Advisors  
Mountain Pacific Investment Advisors  
DB Fitzpatrick & Co.  
DB Fitzpatrick & Co.  
DB Fitzpatrick & Co.  
DB Fitzpatrick & Co.  
IEA  
Boise Schools  
IPEA  
Idaho Trust National Bank  
Idaho School Boards Assn  
IASA  
Clearwater  
Clearwater

Naale Figueras  
Charles Dickinson  
Paul Yett

Clearwater Research  
Clearwater Research  
Hamilton Lane Advisors

## PORTFOLIO

Monthly Portfolio Update: Chief Investment Officer Robert Maynard had previously provided reports to the Board. In his absence, Investment Officer Richelle Sugiyama discussed highlights from the report. She also explained how she uses the individual manager reports to monitor compliance with their investment guidelines, key personnel changes and account turnover as well as returns. Local managers' narrative comment portion of these pages often provide insight on the Idaho economy or other relevant market data. Highlights from the CIO Comment portion of the report included:

The current year is shaping up to be very similar to last calendar year – generally long periods of long, sideways, and somewhat volatile moves as the markets attempt to determine the next major trend in the economy and earnings. The economy is showing clear signs of the middle to later period of an economic expansion, with slowing but still positive economic and earnings growth. The Federal Reserve is also continuing along the path of reducing the liquidity in the system, with the market somewhat unsure about the length and extent of the current tightening cycle. As a result of these uncertainties, the fund is down 1.3% for the month to date, and has retreated to a positive 6.4% for the fiscal year-to-date (from a high of 10.3% earlier in the year).

Private equity is both adding to excess returns and has good absolute (time-weighted) returns for both the fiscal year (+16.1%) and trailing year (+25.3%). Bernstein Emerging continues to lead all managers in both absolute performance with 37.2% for the fiscal year-to-date, as well as relative performance with a 13.4% outperformance of its benchmarks. Mondrian and Genesis are also showing significant positive performance both the absolute and relative returns. SGAM international equity has the worst relative performance, while Tukman has the poorest absolute performance for the fiscal year-to-date.

As of April 18, 2005, the report shows the ending value of the PERSI fund at \$8,251,601,565. Chairman Olson asked if any more manager changes were on the horizon. Ms. Sugiyama said everything is currently in line. She had just returned from an on-site visit to Western Asset Management one of our newer managers.

The annual audit results of the Idaho Commercial Mortgage Program will be presented to the Board at the May meeting by GMAT.

Private Equity Report: Paul Yett of Hamilton Lane Advisors discussed the report he had previously provided for the Trustees. This was a strong year in the Private Equity sector for PERSI. There were lots of buyouts and distributions. The report showed the Vintage Year (when each partnership makes an investment) for each investment.

Chairman Olson noted that before we had a structured Private Equity program with Hamilton Lane, he served on the advisory board of our first private equity investment, Saugatuck Capital Company. That 1992 investment is now closed. Chairman Olson currently serves on Galen Partner's advisory board in New York City.

In 2004, commitments were made to three new partnerships and we have added five others in 2005. Responding to a question from the Chair, Mr. Yett said about 3% of the fund is invested in private equity. He expects that to increase somewhat this year to about 5%.

Investment Manager Comments: Before a short break, the Chairman invited managers who were present to comment on the markets and the economy. Consumer confidence has dropped by the largest amount in two years, partly because of the increase in gasoline prices at the pump. While the Idaho economy remains strong, managers expressed concern over inflation and interest rate changes by the Federal Reserve Board. Most expect the financial markets to continue to be volatile and unsettled in the next few quarters.

## MINUTES

Approval of the Minutes: By motion duly made by Trustee Johnson and seconded by Trustee Hayes, the Board unanimously approved the minutes of the March 29, 2005, regular meeting of the Retirement Board as submitted. In another motion made by Trustee Johnson and seconded by Trustee Hayes, the minutes of the April 14, 2005 meeting of the Private Equity Sub-Committee were also unanimously approved.

## EXECUTIVE DIRECTOR

Employer and Employee Survey Results: PERSI Information Officer Patrice Perow introduced Charles Dickinson from Clearwater Research, Inc. who had provided detailed survey results to the Board.

This year we surveyed members who had completed a transaction with PERSI. Categories surveyed by mail were disability retirement, Choice Plan loan, retirement, Choice Plan rollover and separation benefits. Satisfaction with the processes and PERSI service ranged from 80% to 97%. Employer surveys were conducted by phone. The detailed comments in the report will be helpful to staff as they work to improve processes in the coming year.

Responding to a question from Trustee Hayes, Mr. Dickinson said the cost is about \$30,000 for the annual survey. Strategic plan targets and goals will become part of future survey reports as we track progress. Deputy Director Doner said often, when members want to roll funds into the Choice Plan, their existing IRA or other financial institution makes the process difficult. That lowers our survey rating by those members when we ask them about the ease of the "rollover process." Mr. Doner expects the Business Process Review project to provide metrics with a balanced scorecard for measuring consumer relations with both members and employers.

School Sick Leave: Mr. Winkle had met earlier in the month with representatives of the School Sick Leave Task Force as they developed some model rate schedules for their members to consider. Those models and a memorandum from the Idaho School Boards Association, Inc., both dated April 14, 2005, had previously been furnished to the Board.

Renee Sessler of the Idaho School Board's Association, Jim Shakelford of IEA, Brent Nye from Boise Schools and Vikki Reynolds of the Idaho Association of School Administrators addressed the Board on this issue. The Board is sensitive to the budget setting process that is already in process. However, as fiduciaries, the stability of the sick leave fund is a primary concern. Negotiating sick leave days is a school district role; collecting adequate contributions to fund those benefits is PERSI's responsibility. After considerable discussion, by motion duly made by Trustee Hayes and seconded by Trustee Johnson, the Board directed staff to draft rules to increase school sick leave contribution rates to be phased in over three years. The increase is to be delayed for one year until the beginning of FY2007, have one rate for those awarding up to 10 days at 1.21%, and a higher rate of 1.44% for those awarding 11-14 days. If any school district awards more than 14 sick leave days a year, a special contribution rate will be set by the PERSI Board to cover the extra costs. Staff will draft the rules and bring them back to the Board for adoption.

Status Update: Mr. Winkle had previously provided a memorandum to the Board summarizing the projects in which PERSI is involved. We received a good response to our Request for Proposals for Technology and Workflow in the BPR project. Staff is currently rating six proposals.

#### LEGAL:

Fiduciary Standards Questions: Deputy Attorney General Goodsell had previously provided a memorandum dated April 13, 2005 to the Trustees. A U.S. Department of Labor report, Meeting Your Fiduciary Responsibilities, was the basis for his presentation. Mr. Goodsell had added clarification comments throughout the report for the Trustees to point out areas that are not applicable to PERSI or where differences exist between the PERSI and ERISA standards. A question was raised by Trustee Johnson concerning the

indemnification of board members. Trustees asked for an Attorney General Opinion regarding indemnification of Board members and whether insurance policies held by board members might be subject to subrogated claims from the state. The Executive Director will request the Opinion.

#### FISCAL:

Administrative, Portfolio and Travel Reports: Financial Officer James Monroe reviewed the administrative budget, portfolio expense and out-of state travel reports which had previously been furnished to the Board. All the operating expenses are in the normal ranges. In response to a question from the Chair, he said short-term merit increases were awarded to staff from salary savings. No permanent merit increases were approved by the legislature this year. A possible one-time bonus in FY2006 is contingent upon a State of Idaho budget surplus of \$124 million.

GASB 40 Reporting Requirements: The Board had received a draft of a new section of the PERSI Investment Policy developed jointly by the PERSI investment and fiscal sections which will be brought to the Board for approval in May. Mr. Monroe said our auditors are reviewing the draft to ensure it will address the GASB 40 reporting requirements. They are also reviewing the financial statement footnote revisions resulting from GASB 40. Those changes to the footnotes in our CAFR will be available for Board review if desired. He does not expect the policy to change the way we handle investments, but formalizes our existing processes. Trustee Johnson asked if we have had counsel look at this new section to ensure it meets our fiduciary standards. Mr. Monroe said we have not yet taken that step.

#### EXECUTIVE SESSION:

Chairman Olson told those present that Idaho Code Section 67-2345(b) permits the Board to hold an executive session to discuss matters exempt from disclosure (i.e. matters concerning personnel matters.) Due to the fact that personnel matters were before the Board, by motion duly made by Trustee Johnson and seconded by Trustee Hayes, the Board convened in Executive Session.

Reconvening in open session at 11:05, Chairman Olson said the Board had reviewed Executive Director Alan Winkle's performance for the year and found it to be outstanding and meritorious. By motion duly made by Trustee Hayes and seconded by Trustee Johnson, the Board unanimously approved a combination lump-sum bonus and short term merit payable in FY2005 in the amount of 2.9% of Mr. Winkle's current annual salary. In the same motion, an on-going FY2006 merit increase of 2.9% was awarded to Mr. Winkle.

#### FUTURE MEETINGS:

**Thursday**, May 26, 2005, 8:30 a.m., Boise – PERSI office

NO REGULAR MEETING WILL BE HELD IN JUNE 2005

**Thursday**, July 21, 2005, 8:30 a.m., Boise - PERSI office

Tuesday, August 23, 2005, 8:30 a.m., Boise - PERSI office

**Friday**, September 23, 2005, 8:30 a.m., Boise - PERSI office

Tuesday, October 25, 2005, 8:30 a.m., Boise - PERSI office

NO MEETING IS PLANNED FOR NOVEMBER 2005.

Monday, December 5, 2005, 8:30 a.m. Boise – PERSI office

Adjournment: At 11:07 p.m.. there being no further business to come before the Board, by motion duly made by Trustee Hayes, seconded by Trustee Johnson and unanimously approved by members present, the meeting was adjourned.

Jody B. Olson  
Chairman

Alan H. Winkle  
Executive Director